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JUST CONTRACTING PARTIES, OR PARTNERS AS WELL?

Thomas I. Siemsen

Government and contractor acquisition personnel are frequently directed by their superiors to trust one another and others with whom they have contracts. Unfortunately, relatively little thought may have been given to what trust consists of or what an act of trust must entail. This paper considers what is involved when one chooses to trust another person, under what circumstances trust may or may not be appropriate, and the consequences of trusting or not trusting. The paper concludes with brief suggestions concerning the ways in which trust might be incorporated into the source selection process.

I recently had an interesting experience that led to this paper. I had just finished outlining an exercise involving a simulated negotiation to a group of students. When I asked for questions or comments, one of the students raised his hand and asked, "Are we supposed to treat the people we're negotiating with as if we're all on the same team, or like it is in the real world?" I responded to his question by asking him to explain why he would not want the "other party" on his own team, and he said, "Because, in the real world, I don't trust them." The question and his response prompted me to think about the possibilities of teaming, partnering, and trust these days.

For a number of years, now, the ideas of teaming and partnering have dominated much of the thinking and practice of management, to include the thinking and

practice of defense acquisition management. The U.S. Army Corps of Engineers published a manual titled *Partnering for Success* that discusses the importance of partnering between the government and its contractors and goes on to describe how a partnering agreement can be established. Similarly, Navy program managers and contracting officers have been employing a process known as "Alpha Acquisition," by which confrontational negotiation in "sole source" acquisitions is replaced by a collaborative process of joint preparation of proposal, which can then be accepted as the contract, without further negotiation. The Air Force has employed a similar process for negotiating contract changes under the title "One-Pass," and the Defense Contract Management Agency has established an equivalent process for many of its negotiations under the term

“IPT Pricing” (see Caldwell, 2001; McDonald, 2001; Nibly & Dyer, 2001; Norby, 2001; Norgard & Valley, 2001).

Indeed, when I went to the Defense Acquisition Deskbook and entered the search word *team*, I got 5,616 “hits”; *IPT* produced an additional 1,460 hits, and *partner* and *partnering* produced a combined list of 558.

Although each of these practices or programs is a different application of the ideas of teaming and partnering, they all have in common an increased reliance upon

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trust, not only between the government and its contractor(s), but also a greater degree of trust between management and workers on both sides.

However, as the employees of the Enron Corporation recently learned, trust can be dangerous (Glassman, 2001). Indeed, there is always a potential risk associated with trusting someone. Given that, why is trust important, why are managements all over the world encouraging more of it, and why should those of us in contracting be particularly concerned to understand it? Or, to put the last of these questions a little differently, what should we in acquisition begin doing as a way of taking trust seriously, of really incorporating it into our acquisition practices rather than simply admonishing our acquisition professionals on both the contractor and government sides to trust one another?

One way to start that process is to recognize that there is a difference between

selecting a contractor and selecting a partner. Those of us in government have become fairly adept at the former; but, if we are to accomplish the latter, we need to give some thought as to how our source selections will need to be altered. Gilbert Fairholm has suggested that “Trust has not been given much specific attention by either theoretical or practicing professionals” of any kind (Fairholm, 1994, pp. 95–96). This piece is an initial suggestion of the need for some thinking about trust in acquisition and some further preliminary thoughts regarding some possible lines along which some adjustments might be made. But before turning to those adjustments, I want to briefly consider what “trust” is and why it is important.

THE NATURE OF TRUST AND ITS SIGNIFICANCE

Anyone who has played on or even closely watched a successful athletic team has seen trust in action. This is because a team, whether athletic or some other kind, really amounts to a collection of interdependencies or set of mutual reliances. Robert Shaw wrote that “trust grows when we rely on others who, over time, fulfill our expectations” (Shaw, 1997, p. 23). Trust, then, stems from the belief that the other person will do as he/she says, and that the person is both willing and capable of doing what we expect him or her to do. Conversely, if a disparity develops between what we expect of another and the actual performance we receive, distrust is the likely outcome. Although trust among team members or partners does not guarantee success, distrust virtually does guarantee failure. Why this latter is the case

we will see shortly. Before we do that, however, we should note that although trust is generally a good thing, it too is a notion that entails potential problems.

In the first place, in the absence of sufficient information to allow us to make a decision, we naturally begin our relationships with others in a state of ignorance as to whether trust or mistrust is appropriate. Developing information to allow us to make an appropriate judgment, however, is never without cost or risk. At a minimum, it will require effort on our part, and the effort devoted to one thing obviously cannot be devoted to anything else. In other words, there is an opportunity cost involved in the development of information. Unfortunately, there will probably also be additional costs in the form of time that must pass before sufficient information is available to allow a proper judgment to be made. And of course, in the worst case, we may end up with some sort of negative experience in our dealings with the other that will persuade us that distrust would have been, indeed, more appropriate. It goes without saying that the cost of that learning experience may be very high.

Beyond these costs, however, are the potential problems of trust itself. Consider for a moment the terms we used above to characterize the trust relationship, words like “rely” and “dependence.” Trust, in other words, means making oneself vulnerable to the acts of others; as Fairholm (1994) puts it, “trust is a risk relationship” (p. 96). Indeed, trust might be defined as one’s conscious and voluntary acceptance of one’s own dependence upon another. But anytime that I must depend or rely upon another, I am risking the possibility that the other will not meet my expectations.

I have therefore relinquished a degree of control over what can happen to me every time that I choose to trust someone else. Given that, why should I ever choose to trust anyone? What are the advantages that can accrue to me when I trust someone else, that are sufficient to warrant the risks I incur?

The first thing to note is that, in fact, we do engage in acts of trust all the time, whether we are aware of it or not. After all, even the simplest of economic transactions, buying or selling an item off a shelf, requires at least a minimal amount of trust. But the question, “Will I get what I think I will get?” is seldom something we explicitly ask ourselves when we purchase an item off a grocery shelf, for example. Instead, we rely on our trust of the producer and the

grocer and the rules that govern things placed on grocery shelves that the description we are provided is correct. Partnerships, on the other hand, are much more complex than relationships between grocery seller and purchaser and require considerably more conscious trust because they involve an ongoing working relationship, rather than a single act of cooperation. It is therefore interesting that we normally spend so little time thinking about trust and the ways of identifying potential partners.

This normal inattention to trust is particularly interesting when we consider the benefits of trusting our partners (government or contractor, depending on our place in the acquisition process) and the costs

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entailed when we choose not to do so. Although I suggested above that trust entails risk because of one's increased dependency on another, when that dependency is warranted (that is, when one trusts successfully), one is rewarded with increased productivity. Productivity is the relationship between the amount (of something) produced and the resources required for that production; trust increases productivity by increasing efficiency.¹ This is the

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case for several reasons. In the first place, we require fewer resources to accomplish a particular task. When we are working on the basis of trust, all of those

who would normally be devoted to monitoring the actions of others can be reduced or eliminated entirely. People do what others want, after all, either because they share similar values and goals and are trusted or because they are compelled to do so by external forces. When the latter approach is employed, someone must bring those external forces to bear. Lack of trust, in other words, requires more control and that requires more effort.

Second, and more important, however, trust has the paradoxical outcome of increasing our dependency upon another, which increases risk, and simultaneously empowering us. This empowerment occurs because, when we trust another, we are able to rely on the resources of that other as if those resources were our own.

Again, when we trust another we are confident that the other will act as we expect. This means that uncertainty is reduced because we now have a specific expectation. Thus, less uncertainty is empowering because, with greater certainty, we are able to act in ways that greater uncertainty might have precluded. In effect, although trusting another increases our dependency, the resulting risk is simultaneously decreased by the security we obtain through the reduced uncertainty.

Trust is, therefore, worth a great deal, but only if the potential costs of trusting can be overcome, avoided, or at least reduced. As suggested above, our risk of incurring the costs of trust is reduced by increasing our information regarding the one(s) we seek to trust. In the absence of any effort to gather such information, trusting another, putting ourselves in a condition of increased dependency, must seem like something of a "pie-in-the-sky" approach to life in general and certainly an unrealistic approach to acquisition. But if we can base our decision to trust, to enter into a partnership, on the basis of information that gives us reasons to trust, there is nothing utopian or foolish about that decision. As Walter Powell has noted, trust should not be blind; it "must be deliberate or even studied" (Powell, 1996, p. 52). Of course, there are no guarantees; we can always make a mistake in trusting someone, just as we can always make a mistake in selecting a particular career path or marriage partner. But when we trust wisely, based on the best evidence available, the benefits, as I have suggested, are substantial. So, what kind of information should we look for?

TRUSTING IN ACQUISITION

We noted above that trust stems from the belief that the one we choose to trust is both willing and capable of meeting our expectations. Of course, the way that we in government normally determine a contractor's capability, at least initially, is through a source selection, and there is no reason to depart from that approach when trying to determine the capability of a potential partner-contractor. Although the government does not always require a technical volume, it is still the norm for a source selection to include an evaluation of the offerors' technical approach, particularly in systems acquisition. Again, such an evaluation is entirely consistent with the goal of establishing a partnership. If we fail to make judgments regarding viable candidates for our trust, we lapse into a utopian world in which everyone is trusted without any distinctions. Only those who are capable of meeting our expectations should be candidates for our trust and, if the effort we are asking of our partner is technically challenging, an evaluation of the offeror's technical capability is not only appropriate, but essential.

As important as a technical evaluation can be, however, it cannot replace our experience with an offeror. In systems acquisition, of course, that experience is captured in the form of past performance: Has the particular offer met our expectations in the past, or have we been disappointed? Past performance is a powerful indicator of an offeror's potential for trust because it addresses both the capability of an offer to satisfy one's expectations, and that offeror's willingness to do so. A technical proposal may tell an evaluator a

great deal about an offeror's capability to meet a requirement and satisfy an expectation, but it indicates little or nothing about an offeror's willingness to do so; past performance does. Moreover, past performance information can immediately reduce one of the potential costs normally associated with the decision to trust another — the cost of time. It is very common to find discussions of trust statements to the effect that "it takes time to establish a basis for trust." That is, I think we can all agree, a

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true and very reasonable statement. What past performance attempts to do, however, is capture experiences over time with a particular offeror in a form that is useable by those trying to decide whether to trust another. In other words, past performance makes the time required to establish trust the time of others rather than our own time. Using it means that we do not necessarily have to spend time with the other and see if it meets our expectations before we decide to give that other our trust, because others have already done just that and have documented their experiences for us. Does this mean that past performance is some sort of infallible tool that will tell us we can trust another without risk? Of course not; but, can it help us with our decision regarding our willingness to trust? Most certainly.

Another tool that is available to the government organization desiring to establish a partnership, in addition to a contractual relationship, is the management volume of the offeror's proposal. Now,

although a technical volume is commonly requested as a part of the proposal and past performance is almost always evaluated, management volumes are much less frequently required. But, if given some thought when the Request for Proposal is crafted, a management volume can provide a great deal of useful information to help the government make its partnering decisions. I should note that the following guidelines are only that — guidelines that must be tailored to the particular needs of the evaluation team conducting the source selection.

One of the most important indicators of whether an offeror should be a candi-

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date for trust is the extent to which that offeror trusts its own employees. After all, contracted efforts are ultimately accomplished or not accomplished by contractor

employees; if the firm does not trust those people, why should the government? But, more important, if the firm is unwilling to trust its own people, is that firm really prepared to enter into a relationship of trust, a partnership, with the government? The answer to that question may be "yes," but trust tends to be contagious (as does distrust) and organizations tend to be oriented either favorably or unfavorably toward trusting others. If an organization does not trust its own personnel, it must be prepared to demonstrate how and why it will deal with others in a trusting manner. There are, after all, lots of good reasons

for organizations to trust their own employees, just as there are good reasons for establishing a relationship of trust between the government and its contractor. Trusted employees, like trusted contractors, do not have to be as closely monitored and there are economic savings as a result.² Additionally, when people are trusted they tend to speak their minds more readily and problems thereby surface more quickly (Shaw, 1997).

Other things that a management proposal can reveal that can be helpful in determining an organization's candidacy for trust are things like the kinds of relationships a firm seeks to establish with its suppliers. The sociologist Richard Sennett wrote, "Bonds of trust are tested when things go wrong and the need for help becomes acute" (Sennett, 1998, p. 141). If a contractor has only the provisions of its subcontracts or supplier agreements to turn to when an emergency arises, that contractor is in a much weaker position than a contractor that has established relationships of trust with its suppliers and vendors that extend beyond the terms of its subcontracts. How are vendors dealt with by the contractor when the vendor experiences a problem? How are employees dealt with when they make a mistake or when there is a need for the company to downsize? What were employees told, by way of explanation, the last time the company went through a reorganization involving a substantial number of those employees? Do the employees themselves believe that "management" trusts them, and do they trust "management"? If a contractor is prepared to trust its suppliers and its workers, indeed, has already begun to do so, and is, in turn, trusted by them, that may indicate a willingness and an ability

to establish a trust-based partnership with the government. For anyone interested in pursuing the development of a solicitation that calls for the submission of information along the lines suggested here, they would be well served to look over the survey that Robert Shaw (1997) offers as a guide for determining the extent of trust within an organization or a team.

Having said all of this, let me now note that, although I have written this from the “government perspective,” nearly everything I have suggested is equally applicable to contractor personnel who would like to establish a more trusting relationship with their government counterparts. Although it is true that contractors do not write (prime contractor) solicitations, a lot can be gleaned about a government organization’s willingness and ability to trust its contractors by looking over past solicitations issued by that particular

organization. Although contractors may not have formal “past performance” records for some of those same government organizations, the government’s past dealings with that contractor should be taken into account when a contractor is considering a particular government organization as a potential partner (rather than just another customer). A government organization wishing to establish partnerships with its contractors should probably begin by surveying its own workers regarding their sense of trust in the organization and then examine how it has practiced or failed to practice trust within itself. Like almost everything worth anything, genuine lasting trust is not automatic and cannot be presumed. It comes about as a result of thinking, planning, and working. But those organizations that develop the courage to trust both within and outside themselves will be well rewarded.



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ENDNOTES

1. “Efficiency” is, in economic terms, greater production with fewer resources, i.e., less waste.
2. In the discipline of economics, this issue falls under the subject of principal-agent theory and the savings referred to here are the avoided “transaction costs” that must otherwise be expended to ensure that employees (agents) will act in the principals’ interest. See Sappington (1991).

